

FINANCING LONG TERM CARE: OPTIONS FOR THE FUTURE*

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THE federal government is involved in the American health care industry in many different ways, and one of those ways is as employer. You are undoubtedly more familiar with the government in other roles, but we are the nation's largest employer and the largest purchaser of group health insurance. As the president's personnel chief, I am responsible for providing health benefits for more than two and one half million active employees and two million retired workers and their families.

Since President Reagan raised the issue of finding ways to protect elderly Americans from the devastating costs associated with chronic illness in his 1986 State of the Union address, many groups both inside and outside government have been seeking a solution to this problem. Given that most Americans acquired coverage for acute hospital and medical care primarily through their employment, an employment-based solution to the problem of long-term care was an obvious target for investigation. Hence, we at the Central Personnel Agency of the federal government set about analyzing the issues in terms of our own work force and trying to devise a solution in the employer sponsored benefit programs the government makes available to its workers.

Our search for an employment-based solution takes place in a particular context, one that I believe we share with major segments of American business. Like most large corporations, the government has a long-standing commitment to the health and welfare of its employees. In our case, that commitment is backed up by the expenditure of billions of federal dollars per year on employee benefits. Also, like many private companies, however, we have been going through some very difficult times. With employer paid benefits running at about 40% of payroll, we are struggling to contain costs in the benefit programs we already administer. In our current economic sit-

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uation, we cannot even contemplate a whole new category of expenditure. Thus, the type of solution favored in the past whereby employers simply purchased group insurance for their employees is out of the question for the emerging problem of long-term care.

When we looked at our work force, we saw that federal employees are one of the best insured groups in America. They enjoy disability income protection and group life insurance, and get to choose annually from an array of health insurance plans that offer broad hospital and medical benefits, including catastrophic coverage. Since 1983 they have been covered by Medicare. Like most other Americans, however, they have little or no protection against the cost of chronic, long-term illness, and, like most other Americans, they apparently do not realize either the extent of their risk or their lack of coverage.

The federal population is, in fact, slightly more vulnerable to the need for long-term care than the population as a whole, because as a group its life expectancy is slightly greater. Of the 2.7 million people currently working for the federal government, approximately 40%, or 1.1 million, will require some form of nursing care either in an institutional or home setting. The number may even be greater if improvements in mortality continue in the next decade as they have in the one just past. In trying to devise a long-term care program to protect these workers and their families, we were guided by a number of principles, most of which would be relevant to other employers.

First of all, we wanted a voluntary program. As a responsible employer, we want to help people help themselves. Given the current misconceptions about the coverage of nursing home expenses under existing health insurance plans and Medicare, we also understand that a voluntary program will not work unless it is accompanied by a vigorous education campaign. Employers have no difficulty commanding the attention of their workers, and they are perhaps uniquely situated to educate the American public concerning the probability of needing long-term care and its potential financial impact.

Second, we wanted true group insurance. By tradition, we do no medical underwriting in our employee benefit programs. Our risk group is very large and the pooling aspect of group insurance should allow us to cover some who might otherwise be uninsurable and still maintain affordable premiums.

Third, we believe that long-term care should ideally be fully funded in advance. We should neither promise future benefits for which no funds are

set aside nor expect future generations to pay the bill for our increased longevity.

By recognizing the risk of long-term care and paying premiums in the years before we expect to use the benefit, we can have long-term-care protection at a reasonable price and on a sound financial basis.

Fourth, since there can be no question of additional federal dollars, we need a solution that spends existing dollars more wisely and stretches or converts an existing program to meet a new need.

Fifth, and this one is peculiar to the government, where the private sector has the capacity to perform a service or function we should rely on that capacity and not duplicate it in the government.

After analyzing our situation with these principles in mind, we came to the conclusion that the most attractive, economical way we could offer long-term care to federal workers was to make it an option under our existing life insurance program.

Why an option under life insurance? Because there are important similarities between funding long-term care and certain types of life insurance, and our particular life insurance program enables us to take advantage of them. Our program—which already enrolls 90% of the work force—has a level funding structure whereby employees pay more than the term cost for their insurance during their younger years, less during their later years, and nothing after retirement. This means that if a middle-aged employee decides to convert his life insurance to another purpose, certain reserves associated with his participation in the program can be put to a new use. Additionally, the government makes a modest contribution to the life insurance premium for the employee, and that amount is also free to support a new purpose.

Specifically, we propose to allow employees when they attain age 50 and have participated in the life insurance program for a minimum of 10 years to trade-in a part of the face-value of their life insurance for long-term-care coverage. Since long-term care is more expensive than life insurance, they would also pay an additional premium based on age at entry. That premium, plus the government contribution and the reserves associated with the employee's participation in the life insurance program, will fund the long-term-care benefits.

We believe that life insurance conversion will be attractive to employees, because the need for large amounts of life insurance decreases in the later years as the need for long-term care increases. Moreover, our program is so structured that employees who desire to keep large amounts of life in-

surance in force *and* to sign up for long-term care will be able to do so, provided they are willing to pay the additional premiums.

The type of plan we envision would pay indemnity benefits for up to three years of nursing home care or alternative home health care. The reimbursement rate for a nursing home stay would be approximately two thirds of the national average cost of nursing homes. No prior hospital confinement would be required for either the nursing home or home health benefit. Both the benefits and the premiums would be indexed to changes in federal pay levels. The government would enter into contracts with one or more insurance companies to provide the coverage and to administer the program.

The particulars of the solution we have devised for federal workers probably cannot be copied by other employers. The underlying life insurance program we are using as a springboard is not typical of those generally offered to employee groups. Other employers can, however, go through the same analytical process we went through and design vehicles appropriate for their traditions and circumstances. I would urge them to do so. The announcement recently of several new group long-term-care products suggests that they would find ready assistance from commercial insurers.

Quite apart from the particulars of our proposal, the size and visibility of the federal work force is such that its coverage under an employer-sponsored long-term care policy is likely to have far-reaching implications. While currently only 200,000 Americans are covered by long-term-care policies, 655,000 federal employees would immediately meet the criteria for enrollment under our proposal.

A survey conducted in the private sector by Equicor in 1986 found that 32% of employees showed some interest in trading current benefits for long-term care, and estimated that many more would be interested if they understood the risks and their current lack of coverage. Even at the 32% figure, our program could double the number of Americans who enjoy this type of protection.

Further, the federal work force is diverse enough in composition and geographic distribution to serve as a national laboratory for learning about long-term care—who buys it and why, what educational and marketing techniques are successful, etc. While the government would no doubt use this information to refine its own program, it could be enormously helpful as well to private employers, insurance companies and to the health industry as a whole.

Our proposal is currently being debated and refined within the executive branch prior to the submission of enabling legislation to Congress. I wanted

to share its broad outlines with you today to let you know the general direction in which we plan to go and the seriousness of our commitment.

The problem of funding the care required by elderly and chronically ill Americans will not go away and, in fact, grows more critical each day. It is too large and too complex to admit of any single solution, but employment based programs clearly have a major role to play. I challenge other employers, insurance companies, and health care providers to bring all their skills and creativity to bear on the problem and join us in designing programs and products which can prevent the true financial catastrophe that threatens our later years.